U.S. Department of Housing and Urban Development
Public and Indian Housing

Special Attention of:

Public Housing Agencies; Indian Housing Authorities; Secretary's Representatives; State/Area Coordinators; Directors, Public Housing Divisions; Administrators Offices of Native American Programs; Resident Management Corporations (RMCs)

Notice PIH 97-31 (HA)
Issued: June 25, 1997
Expires: June 30, 1998

Subject: Optional Earned Income Exclusion/Deduction Incentive and Corrected Sample Format for Performance Funding System

The Department of Housing and Urban Development has published two Notices regarding the calculation of Performance Funding System (PFS) Incentives for Other Income and for Housing Agencies (HAs) that adopt Optional Earned Income Exclusions/Deductions. The first was Notice 96-24 dated April 3, 1996, and the second was Notice 96-87 dated November 20, 1996. The Department has discovered two errors in the Earned Income Incentive part of the previously issued sample formats.

The previous formats correctly calculate the incentive relating to Other Income. For the convenience of the many HAs that are eligible for the Other Income Incentive but have not adopted the Optional Earned Income Exclusions/Deductions, this Notice provides a separate "short form" format for the Other Income Incentive in Appendix A.

The earlier formats incorrectly calculate the Dwelling Rental Income incentive adjustment for HAs that have adopted Optional Earned Income Exclusions/Deductions by "double-counting" the cost of Exclusions/Deductions. In addition, the previous instructions based the calculation on Tenant Rent, rather than Total Tenant Payment, and therefore did not protect the calculation from the impact of changes in utility allowances. This Notice provides a corrected version of the format in Appendix B. HAs that benefit from the corrected calculation may submit revisions to the Field Office.

What are the Optional Earned Income Exclusions/Deductions covered by this Notice? They are limited to the Exclusions/Deductions adopted by the HA in accordance with one of the following two provisions:

1. For Annual Income: Optional Earned Income Exclusions. Final Rule published May 5, 1997. Interim Rule published August 30, 1996; effective September 30,

1996; transmitted to HAs by HUD Notice PIH 96-71 (HA), issued September 9, 1996. (Valid indefinitely)

2. For Adjusted Income: Optional Earned Income Deductions - From the Continuing Resolution of January 26, 1996, as discussed in HUD Notice PIH 96-6 (HA) issued February 13, 1996. Extended until September 30, 1997, by the FY 1997 Appropriations Act of September 26, 1997, as mentioned in HUD Notice PIH 96-81 (HA), issued September 30, 1996. (Valid until 9/30/97, unless extended by law)

Other steps that a HA can take to encourage increases in earned income are not covered by this Notice and do not require special treatment when calculating the PFS. These include, but are not limited to, adoption of ceiling rents, adoption of local worker preferences, and Family Self Sufficiency Programs.

The Optional Earned Income Exclusions/Deductions provide HAs the opportunity to adopt incentives to encourage and support the efforts of working tenants. Under the PFS, operating subsidy is designed to cover the gap between allowable expenses and locally generated income. Normally under the PFS as rental income rises or drops, the subsidy eligibility decreases or increases accordingly. In order to give HAs the maximum freedom to design their own Earned Income Exclusions/Deductions, an exception has been made in this case to the normal treatment of income under the PFS. This provision allows the adoption of Earned Income Exclusions/Deductions by housing agencies that are willing to absorb the loss of income if the Exclusions/Deductions do not immediately result in offsetting increases in Total Tenant Payment from earnings. The PFS subsidy will not increase to cover the amount of rental income lost through these Exclusions/ Deductions, but will allow a HA that achieves net increases in Total Tenant Payment from earned income to have an incentive increase in subsidy up to an amount equal to the PFS operating subsidy shortfall.

In order for HAs to qualify for this financial incentive, they must certify by resolution of the Board of Commissioners that they are making significant efforts to utilize the Optional Earned Income Exclusions/Deductions for existing residents and not solely taking actions regarding new admissions. HAs must add the total amount of the Optional Earned Income Exclusions/Deductions to their rent roll used to calculate PFS eligibility. An HA "breaks even" on its Optional Earned Income Exclusions/Deductions when it reaches the point that the increases in Total Tenant Payments from earned income equal the total of the Optional Earned Income Exclusions/Deductions. When the increase in Total Tenant Payment from earned income exceeds the optional exclusion/deduction, the HA can benefit financially.

In order to determine the amount of its incentive, the HA must analyze its Total Tenant Payments in one month each year (the PFS rent roll month). It must determine the total of the Optional Earned Income Exclusions/Deductions. It must also determine the amount of the Total Tenant Payment resulting from earned income.

Appendix C provides an illustrative example of how this calculation would work for a housing agency.

If additional information is needed, please contact Joan DeWitt, Director,
Finance and Budget Division, Office of Public and Assisted Housing Operations at
(202) 708-1872. Offices of Native American Programs should contact Debbie Lalancette, Director, Housing Management Division, Office of Native American Programs at
(303) 675-1600.

_/s/Kevin Emanuel Marchman_____
Acting Assistant Secretary for Public
and Indian Housing

Appendixes are in a separate file.